1988

NWT ECONOMIC REVIEW AND OUTLOOK

Northwest Territories

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Sources for the figures contained in this review are: the GNWT Statistics Bureau, Statistics Canada, Revenue Canada, the NWT Chamber of Mines, the GNWT Departments of Economic Development and Tourism, Renewable Resources, and Social Services, Indian and Northern Affairs Canada, the Freshwater Fish Marketing Board and COGLA.

Introduction

The NWT economy has regained some of its former momentum, but obstinate structural problems still plague many of the smaller communities.

The 1987 NWT economy regained some of the momentum lost during the industrial downturn of 1986.

Monthly employment averaged 18,561 in 1987, exceeding both the 1986 and 1985 levels, and average weekly earnings increased by roughly 5% over 1986.

Retail sales rose by about 2%, to $256 million in 1987 from $250 million in 1986, and there were 245 more companies registered in the NWT in the last quarter of 1987 than there were in 1986.

The value of metallic mineral production rose to $789 million from $642 million in 1986, and mineral exploration almost doubled to $68 million from $35 million.

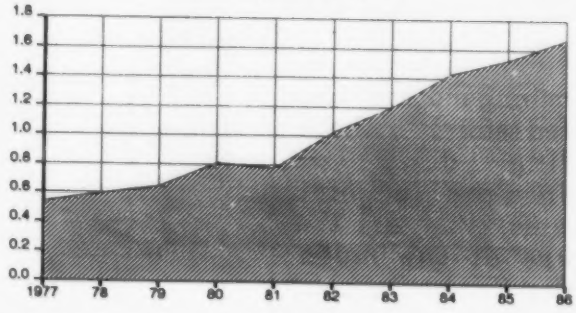
Construction activity was also up. The value of housing investment rose by 4.6% to $54.1 million, and public investment climbed by 18% to $358 million.

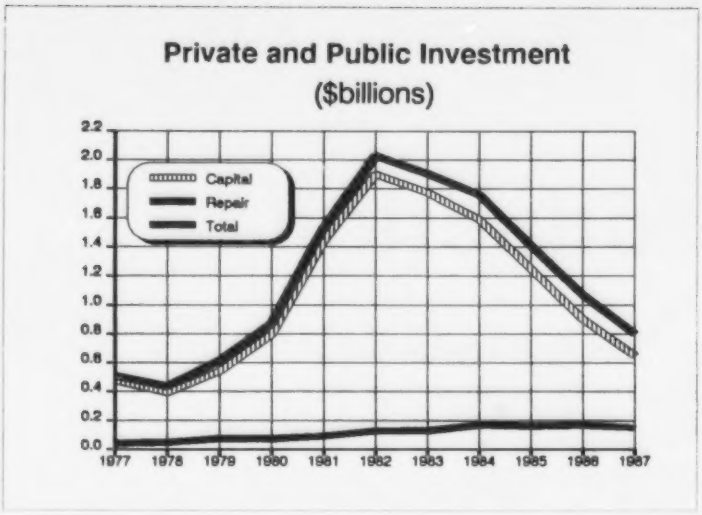
The value of total investment, on the other hand, slumped by 25%, from just over $1 billion in 1986 to $800 million in 1987, reflecting a continuing decline in private investment and, more precisely, continuing recession in the oil industry.

Oil and gas exploration continued in the frontier regions last year, but the

Gross Territorial Product at Market Prices

($billions)





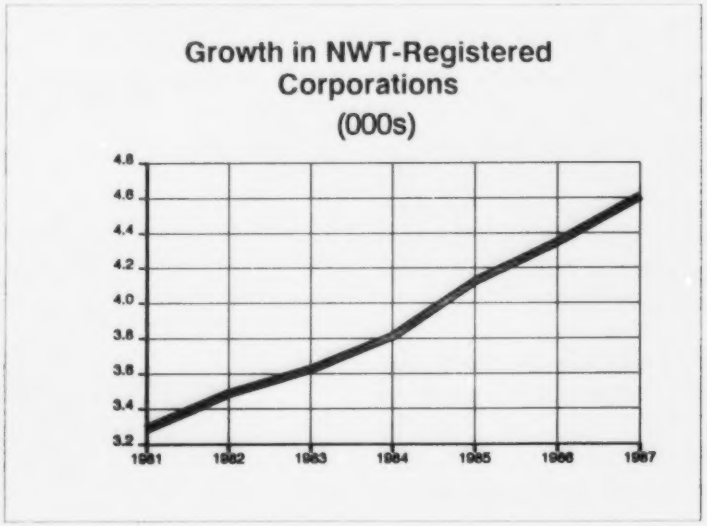
$16-18/barrel price for oil dictated a far smaller scale of operations than was the case in 1985, when a barrel sold for over $30. Esso's northern purchases, for example, dropped from about $40 million to $7 million, and Gulf was hiring only about 100-120 northerners a month as opposed to 600-700 in the "boom" days. Only in Fort Good Hope, where Chevron signed a $41.7 million joint exploration deal with the community, was there any firm good news in the territorial oil patch last year.

The mining industry also suffered setbacks with the winding down of Cominco's Pine Point lead-zinc mine and the closure of the much smaller Giant-Salmita and Terra-Bullmoose gold mines. The result has been a loss of some 500 jobs.

Unemployment and social assistance payments rose in 1987. The monthly average of initial unemployment insurance claims rose only slightly to 4040 from 3980 in 1986, but the number of "unemployed but able" people collecting social insurance climbed by about 13% to 1004 from 887 in 1986. Presumably many of the latter were those whose UIC claims had expired.

In the renewable sector, the fishing and forestry industries saw marginal gains in 1987. Fur production in the Fort Smith and Inuvik Regions rose by more than $2 million to $5.6 million in 1986-87, but the seal industry in the Baffin, Keewatin and Kitikmeot remained dormant after international animal-rights activists' success in having sealskins banned from crucial European markets.

Enhanced marketing efforts, the lingering effects of Expo 86 and an Arctic 800 telephone "hotline",



which receives hundreds of calls a day, all combined to produce a good year for tourism in 1987.

Canadian Arctic Cooperatives Ltd. and dealers in southern Canada report increased sales of Inuit art, but there was little change in the market for Dene products.

Conclusion

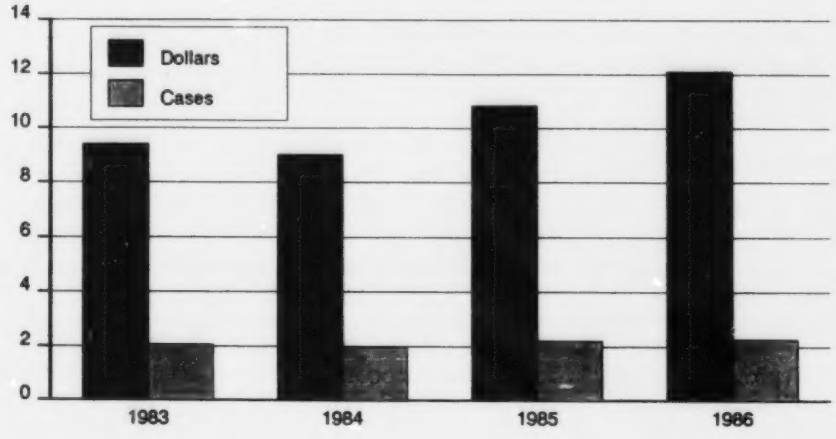
By and large, the above cyclical trends reflect some recovery in NWT communities that were hard hit by the 1986 downturn and/or continuing prosperity in major centres like Yellowknife and Iqaluit, which have remained virtually unaffected by recent cyclical events. As such, they overlook the longstanding and obstinate structural problems that continue to plague most of the NWT's smaller communities.

Unemployment rates reach 50% or more in many isolated, predominately-native NWT communities.

In fact, the NWT economy is still best viewed as two quite distinct economies. Most of the non-native population live in major centres whose economies are dominated by government and/or resource-extraction activities. Average incomes are typically very high, unemployment very low and future prospects relatively bright. Conversely, most of the 29,500 people of Inuit, Dene or Metis ancestry (almost 60% of the total population) live in small, widely scattered villages, where government transfer payments and traditional harvesting activities dominate a fragile economic base and where there are few prospects for growth. Average incomes are generally low, un-

Social Assistance and UIC (Unemployed-But-Able) Claimants

(Number of Cases, $000)



employment high and social assistance a fact of everyday life. Unemployment rates reach 50% or more in some of these communities, and can no longer be readily dismissed as a native preference for traditional, non-wage pursuits. Hunting, fishing and trapping as a full-time occupation, even when possible, is no longer preferred by most native young people — who are fast comprising the majority of the population — if only because they can't earn sufficient income to purchase the material goods the modern economy provides.

Comparison of Approximate Export & Import Replacement Values by Sector

($millions)

Non-Industrial

Exports:	
Fur	5.6
Commercial Fishing	2.0
Forestry	2.0
Arts & Crafts	8.0
Tourism	44.0
Subtotal Non-Industrial Exports	**61.6**
Import Replacement (Domestic Consumption):	
Fuel Wood	2.1
Fisheries and Marine Mammals	12.6
Wildlife	29.0
Domestic Milled Lumber	1.8
Round Logs for Homes	1.1
Subtotal Import Replacement	**46.6**
Subtotal Non-Industrial	**108.2**

Industrial

Exports:	
Mining	790.0
Oil & Gas	140.0
Subtotal Industrial	**930.0**

Note: Domestic wildlife harvest data are not readily available for all regions or sectors; the above figures are extrapolated from available Baffin Region data to provide rough value estimates for these resources. Fuel wood figures are based on data provided in a study of Mackenzie Region communities. Round log figures are based on information provided by the N.W.T. Housing Corporation. The milled lumber figure are actual values supplied by Economic Development and Tourism.

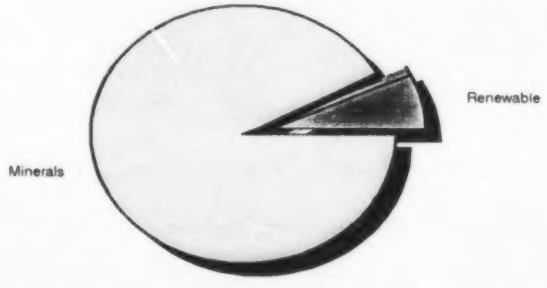
Current Conditions

The Northwest Territories is rich in natural resources, but the economy remains poorly integrated and diversification has been confined to the development of service businesses which are primarily dependent on government.

The Northwest Territories covers an area of 3.3 million square kilometers and constitutes roughly one-third of Canada's land mass. With the exception of a few islands in Hudson Bay, the entire territory is located above the 60th parallel, and most is above the Arctic Circle, a location which poses some severe economic constraints, including remoteness from prime North American markets, longer winters and higher utility and other costs. Added to these are small, scattered populations as well as low educational levels for a large part of the population, many of whom consequently have difficulty in adjusting to a modern wage economy.

Overall, the economy is poorly integrated; linkages among industries are weak and diversification has been largely limited to the development of service businesses which depend on government, primarily, as well as large industry. Apart from minerals and hydrocarbons, very little is exported from the NWT. Mineral concentrates and ores are shipped out for further processing, and manufacturing is confined for the most part to "cottage" industries producing artistic

Comparison of Dollar Values of Mineral and Renewable Exports



goods for small local markets and limited export.

On the other hand, there is an abundance of non-renewable resources in the NWT. Mineral potential is significant for a wide range of metals including zinc, lead, copper, gold, silver, barite, tungsten, uranium, iron and high-tech minerals. Estimated oil and gas reserves are also substantial and have the potential to make a significant contribution to Canadian petroleum self-sufficiency.

In the Beaufort Sea and Mackenzie Delta area, exploratory drilling has confirmed the presence of very large quantities of oil. Gulf's Amauligak structure, for example, has estimated recoverable reserves which are of the same magnitude as Hibernia, and the equivalent of about 14% of Canada's remaining conventional crude oil reserves (5,763 million barrels in 1985).

With completion of Esso's Norman Wells pipeline down the Mackenzie Valley to Zama Lake, Alberta in 1984 (64 years after the initial discovery of oil in 1920) the NWT became a net exporter of oil. Norman Wells also ships natural gas, as does Amoco Canada's Pointed Mountain gas plant in the southwest corner of the Territories.

In the High Arctic, Panarctic Oil has discovered some 12 gas fields, two oil fields and four fields containing both. Small-scale production got underway in 1985 when a tankerfull of crude oil was shipped from the Bent Horn field on Cameron Island to refineries in Montreal.

Though still in the early stages of development, the NWT mining industry has contributed significantly to the development of northern infrastructure, and now accounts for roughly 7% of Canada's metallic mineral production.

Despite much higher development and operating costs for labour, power and transportation, a combination of factors have allowed northern mines to compete effectively with their national and international counterparts. In the case of base metal mines, the NWT has larger, richer ore bodies with more favourable mining and concentration charac-

Discovered and Potential Petroleum Reserves, 1986

	Oil		Gas	
	million cu. metres		billion cu. metres	
	Discovered	Potential	Discovered	Potential
Beaufort Sea/Mackenzie Delta	193.2	1,464.0	292.8	2,151.0
Mainland NWT	51.0	95.0	23.3	312.0
Arctic Islands/Eastern Arctic Offshore	65.7	873.0	416.4	3,156.0
Total	**309.9**	**2,432.0**	**732.5**	**5,619.0**

teristics and/or other advantages, such as proximity to tidewater. In the case of precious metal mines, comparative advantage stems from bigger deposits of higher ore grades (e.g. Lupin) or from lower costs associated with old established operations (e.g. Giant-Yellowknife).

One sector for which the NWT's northerly location is as much a benefit as a hindrance to development is tourism. From a marketing perspective, the "top of the world" offers precisely the kind of geological, historical, cultural, archaeological and wildlife resources which attract a new breed of affluent and educated "adventure traveller" whom international tourism analysts predict will soon be the dominant customer in one of the world's fastest-growing industries.

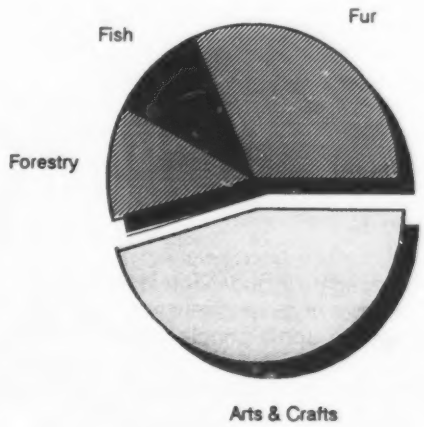
The NWT tourism industry has come a long way since the 1960s, when there were few visitors and tourism consisted almost exclusively of general camping along the Mackenzie Highway and sport fishing at fly-in lodges, most of which were owned by non-residents and generated minimal benefits for the NWT. Guest facilities and services have since expanded dramatically. The number of hotels, motels and tourist homes has doubled to 73, and compared to rudimentary quarters of old, visitors can now stay at a neat, if small, hotels in many communities.

There are now three highways providing access to the Territories — the Mackenzie from Alberta, the Dempster from Yukon and the Liard from British Columbia — and airline service has expanded to the point where jets connect major NWT centres with southern Canada at least six times a week.

Tourism is very much a seasonal industry in the NWT, but its seasonality dovetails well with other territorial wage and traditional pursuits. It also provides young people, especially, the employment experience and skills they require to move on to higher paying full-time employment in other sectors or into entrepreneurial ventures of their own.

Approximately 2000 native fine artists and another 3-4000 artisans derive at least a portion of their income from the production of arts and crafts. Artistic products include soapstone sculpture and carvings, fine prints, original paintings, drawings and tapestries. Crafts, either hand- made

Comparison of Dollar Values of Arts & Crafts and Renewable Resource Exports



or produced in small-scale "cottage" industry situations, include beaded work, parkas, jewellery, moosehair tuftings.

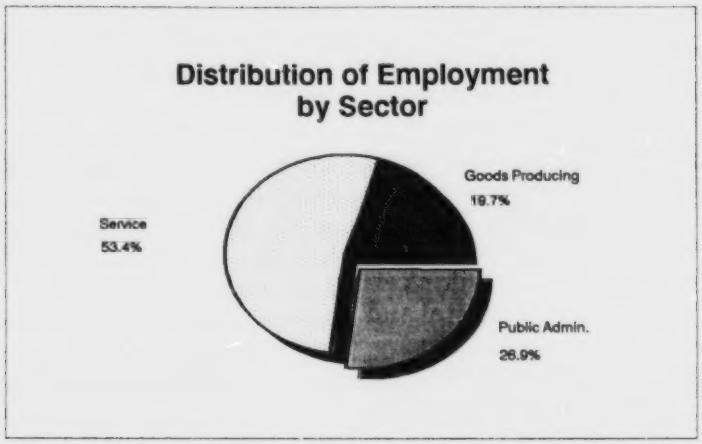
The principal renewable resource activities in the NWT are wildlife and marine mammal harvesting, fisheries, forestry and agriculture. All of these activities are carried out both as relatively small-scale commercial operations (i.e. as production offered for sale) and as "traditional" pursuits (i.e. for domestic consumption).

In sheer statistical terms, the larger industrial sectors of the NWT economy far outweigh the renewable resource sector but the statistics significantly understate the importance of the latter in the smaller communities. More than half the territorial workforce is engaged in renewable resource harvesting on a part-time basis, at least, and it is estimated that country foods replace some $40 million annually in food that would otherwise have to be imported from the south. Traditional pursuits also provide raw material for clothing, wood for fuel, etc., and are an important adjunct to wage employment: oil and gas employment is highly seasonal and mining employment consists of rotational shifts, so many native employees supplement their income from these industries through hunting, trapping and fishing in off-hours. Indeed, many view industrial wages as merely a supplement to traditional income and as a means for financing the equipment and supplies required by what they consider to be their real occupations.

Annual Average Employment and Wages by Sector, 1987

	Number of Employees	%	Average Weekly Wages
Goods Producing Industries including mines, construction	**3,385**	**19**	**141**
Service Industries	**9,842**	**54**	**273**
Transport & Communications	1,512	8	49
Trade	2,184	12	36
Finance & Insurance	798	4	23
Community, Business & Personal Service Industries	5,347	29	135
Public Administration	**4,959**	**27**	**166**
Industrial Aggregate	**18,185**	**100**	**580**

Note: Industrial Aggregate includes forestry and construction. Public Administration does not represent the actual number of government employees as some government-owned establishments are assigned to industries. Some people employed in the mining, oil & gas sector would be included under other sectors, and some NWT residents employed by these industries, but paid from Alberta, might not be included here. Moreover, total employees does not agree with the labour force figures above because of different collection methods.



Nonetheless, non-renewable resources are the greatest source of new wealth in the NWT and offer the greatest potential for achieving regional financial self-sufficiency.

Income and Employment

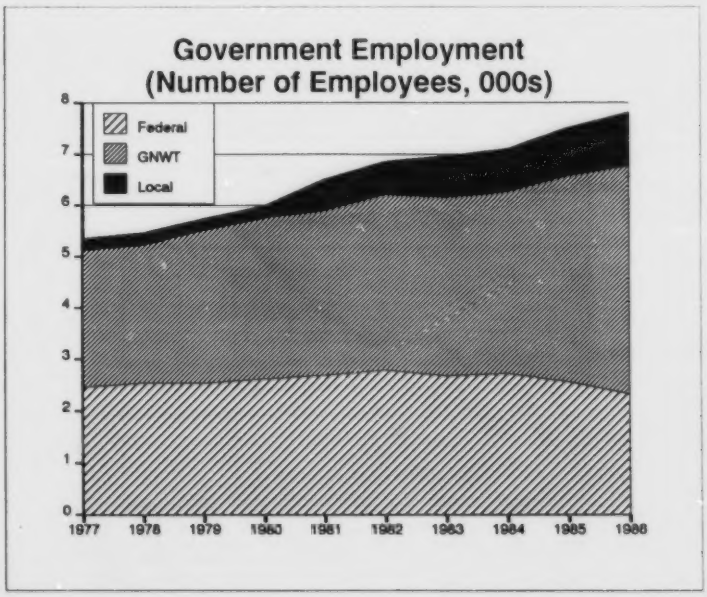
Mines as a group, are the NWT's largest single private-sector employer, biggest exporter and biggest contributor to corporate profits. Mineral industry employment, wages and salaries have shown steady growth over the years, and with average wages over $40,000, miners are the NWT's highest-paid employee group.

Industry employment has averaged about 2400 over the past five years, although the winding down of the Pine Point mine reduced this figure to about 2100 in 1987.

Miners earned over $100-million in wages and salaries in 1987 and the industry (including exploration companies) spent an estimated $72 million on the purchase of NWT goods and services.

Oil and gas companies had a considerable impact on territorial income and employment in the early 80s, particularly in the Beaufort and Mackenzie Delta and at Norman Wells during construction of the pipeline. However the depressed world oil prices have since reduced northern income and employment in the industry considerably.

Individually, retail trade, transport and communications, finance and insurance and other service businesses do not comprise a large percentage of total income or employment, but combined, they account for slightly more than 50% of



employment and 47% of wages and salaries.

The Department of Renewable Resources reports that some 2900 trappers sold furs outside the NWT in 1986-87. In terms of cash income, about half of the trappers earned less than $4000 while 200 earned more than $8000.

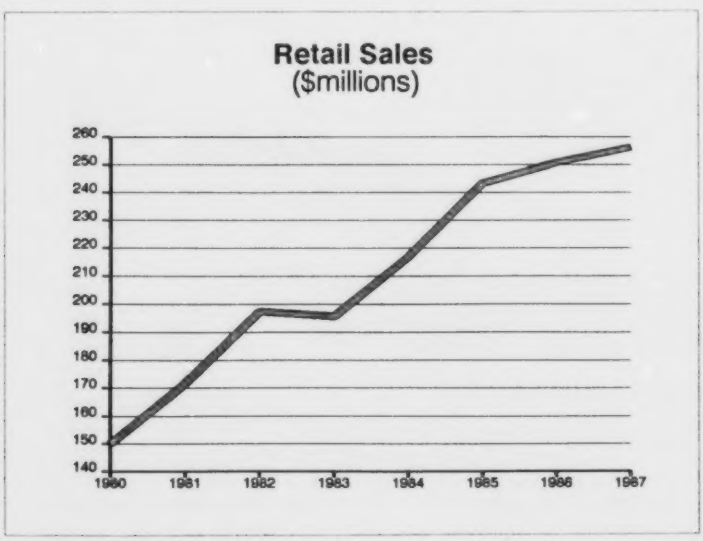
Income and employment in the public sector, traditionally the NWT's largest employer, has grown annually since 1979. In 1985 all levels of government (including municipal) paid almost 8000 people more than $272 million in wages and salaries — roughly 40% of the labour force and 40% of total NWT wages and salaries.

Community Infrastructure

There are 57 communities in the NWT, of which five are major centres with populations exceeding 2000: the City of Yellowknife and the Towns of Fort Smith, Hay River, Iqaluit and Inuvik. Yellowknife is the capital and by far the largest centre, with a population of 11,800, or 23% of the NWT population. The balance — comprising more than half the population — lives in isolated communities whose populations rarely exceed 1000 and typically range between 300 and 800.

The major centres enjoy municipal infrastructures and services that are on a par with small communities in southern Canada. Virtually all communities have modern satellite telephone connections, CBC radio and a variety of television services, but facilities in the smaller communities, while steadily improving, are still generally limited and rudimentary. There are no banks in most communities, so most people turn to the Bay or the Co-op for their everyday financial needs. Besides these chain stores and sometimes a third or fourth general store, there is usually a small hotel/restaurant and a coffeeshop and/or a fast-food outlet that typically doubles as a poolhall and/or video arcade.

The larger communities have hospitals, the smaller ones all have nursing stations. Diesel-generated hydro power is provided by the Northern Canada Power Commission (NCPC). Petroleum products are distributed either by major oil companies or by the GNWT's Petroleum, Oil and Lubricants (POL) agents. Water generally comes from a nearby reservoir; the larger communities have modern water and sewage systems, but trucked water and sewage pump-out are common even in Yellowknife.



Most communities provide education facilities for kindergarten to Grades 7, 9 or 10; Yellowknife, Iqaluit, Inuvik, Fort Smith and Hay River have complete high schools, i.e. up to Grade 12.

Most housing in the NWT is government owned and maintained, but recent government incentive programs have had considerable success in promoting broader home ownership.

Yellowknife and other communities around Great Slave Lake are linked to one another and southern Canada by the Mackenzie and Liard Highways. Inuvik and other communities in the Delta are similarly linked by the Dempster Highway. With the exception of a few winter ice roads, the rest of the NWT is serviced by air and, in summer, by water transport.

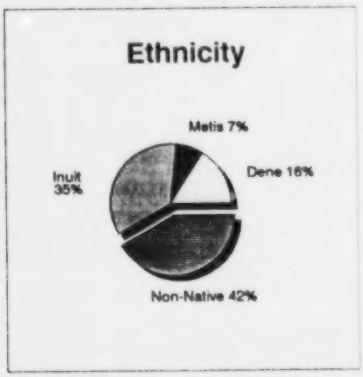
Population

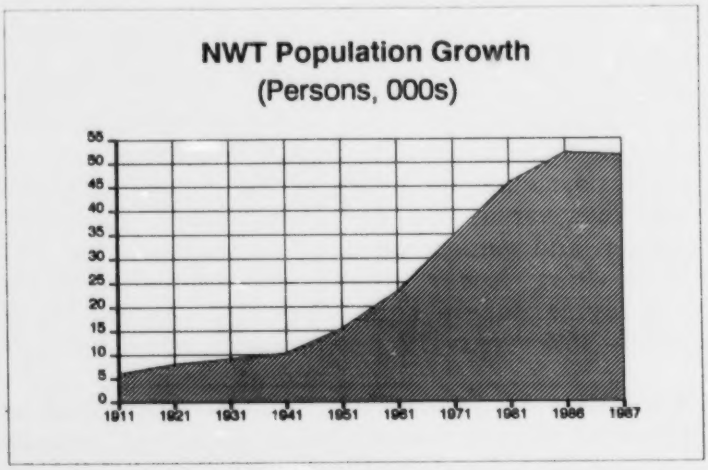
NWT population declined slightly in 1987 to 51,700 from 52,200 in 1986 as a result of out-migration from Pine Point and the Beaufort, but the growth rate among native people is still 3% annually — about three times the national average. Total population is forecasted to grow at a compound annual rate of 1.4% to 54,670 by 1991, one important implication of which is that there will be 600 potential entrants to the labour force every year for the next decade.

Native people comprise about 58% of the total NWT population, which is 16% Dene, 7% Metis, 35% Inuit and 42% non-native. However Inuit people represent more than 80% of the population in the Eastern and Central Arctic regions, whereas there is a slight native minority of Dene, Metis and Inuvialuit (Inuit) in the Western (Fort Smith and Inuvik) Regions. Approximately 45% of the population is under 20 years of age, with only about 2% over 65.

Labour Force

The latest detailed NWT labour survey was conducted in 1985. At the time, about 63% of total population, or 32,000 people, were of working age (15- 64). Of these, 68%, or 21,300 people were in the labour force (i.e. either employed or unemployed and looking for work). Although 5700 people had worked at some time during the year, 3500 others wanting to work were unable to find jobs, yielding an average NWT unemployment rate





of 17% — about seven points higher than the national average.

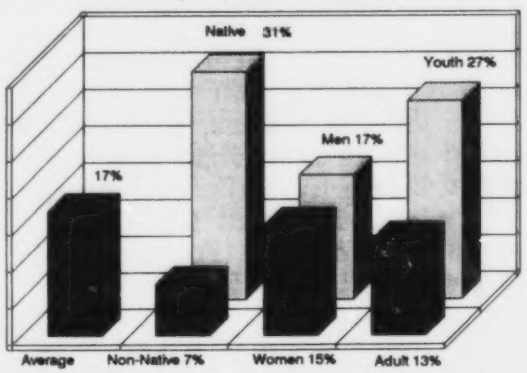
In addition there were 2600 "discouraged workers", i.e. people who wanted jobs but who saw no point in looking for work. Adjusting the average unemployment rate to include this "hidden unemployment" would yield an effective unemployment rate of 26%.

The native participation rate (54%) was much lower than that for non- natives (84%), and the native unemployment rate was more than four times higher than for non-natives: 31% versus 7% respectively.

Young people 15-24 years of age had a participation rate of 52%, compared to 76% for those 25-64, and youth unemployment was 27% — 14 percentage points higher than the rate for those 25-64. The male participation rate was 76%, versus 60% for women, and women had a somewhat lower unemployment rate than men — 15% versus 17%

Although exact figures on seasonal unemployment are not available, the numbers of employees in most industries remain fairly constant throughout the year. The exceptions would be such obviously seasonal activities as tourism, commercial fishing and forestry.

Unemployment Rates, 1985



Education

One of the main reasons for the high unemployment is the low level of education in the NWT, which is generally low by Canadian standards and particularly low among native residents. In 1986, of all residents over 15, 11,580, or 33%, had less than Grade 9 education — 16 points higher than the equivalent Canadian percentage. Among native people the figure is 63%, and at the higher end of the scale, only 2% of native people had attended university, compared with 28% of non-natives.

School attendance has picked up in recent years, but the drop-out and failure rates are still high, particularly among native people. Only about 40% of all students enrolled in Grade 10 actually graduate. Grade 10 is crucial because it is the minimum requirement for entry into virtually all trades. Yet it is at this stage that most young people quit school because most are reluctant to leave their home communities to attend high schools in one of the major centres.

There are three NWT adult vocational training facilities — one each in Fort Smith, Iqaluit and Inuvik. There are adult educators in most communities, but demand already far exceeds the government's capacity to deliver needed training, and that demand is bound to increase with the predicted burgeoning labour force.

Mining & Petroleum

With gold leading the way, mineral exploration nearly doubled in 1987, and production was up. In the oil and gas sector, uncertain world markets kept activity to a minimum.

Mining

There were five gold and three lead-zinc mines operating in the Northwest Territories at the beginning of 1987. Pine Point stopped mining, although milling continued on the stockpile. Exploration on the property has failed to discover more reserves, and the mine will close completely this year. The small Giant-Salmita and Terra-Bullmoose gold mines closed down, while a rehabilitated Ptarmigan gold mine began operation in the last quarter of 1987.

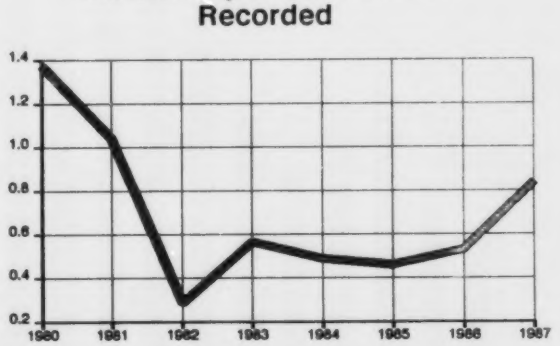
The total value of metallic mineral production rose to approximately $789 million in 1987, an increase of 22% over 1986, owing largely to improved prices for gold, lead and zinc.

Zinc comprised about 53% of total NWT production, gold 28%, lead 18% and others 2% as follows:

Zinc ($000)	$417,429
Gold	224,797
Lead	142,166
Silver	3,827
Cadmium	912
Antimony	88
Bismuth	2
Total	$789,221

About 95 exploration companies spent an estimated $68 million in 1987. The increase was due partly to high precious metals prices, but mostly extensive use of flow-through share financing, a tax break that allows individual investors to write off $1.33 for every dollar invested in eligible exploration activity. Gold

Mineral Exploration Claims Recorded

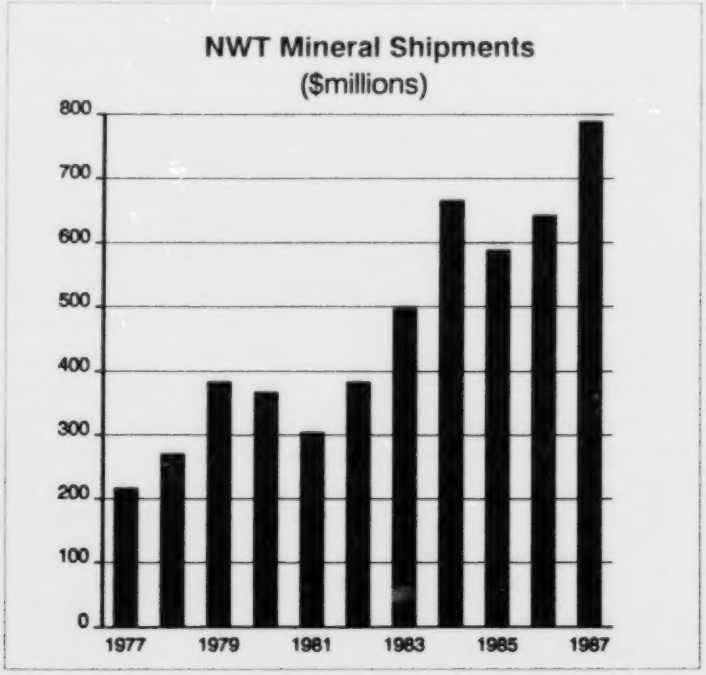


accounted for roughly $61 million of exploration expenditures, with uranium, zinc, lead, platinum and rare earths accounting for the balance.

Despite the high level of exploration, however, the total area under claim increased only marginally because the 552,000 hectares in new claims staked were offset by 431,000 hectares which lapsed.

The federal government announced a number of legislative changes affecting the mineral industry in 1987. A new Mineral and Metal Policy is intended to improve technological performance and increase international competitiveness; promote greater exports and better access to new and traditional markets; and generally foster development of mining as a foundation for regional economic development. Industry reviews were mixed, but generally positive, especially with regard to the policy's commitment to limit "the rate, growth and proliferation of new regulations ... as much as possible."

Also in 1987, DIAND amended the Canada Mining Regulations to improve efficiency in mineral development in the Northwest Territories. The amendments simplified leasing procedures; removed or limited the discretionary powers of the Mining Recorder; eliminated 50% Canadian content requirement for 21-year mining leases in the NWT; and rescinded the need for Governor-in-Council approval to export ore concentrates from Canada.



Following is a synopsis of existing NWT mines:

Pine Point: Once the largest mine in the NWT, this lead-zinc mine has been the economic mainstay of the community of Pine Point since 1964 and has contributed to the economies of surrounding communities, particularly Hay River. The mine employed more than 570 workers until last year, when Cominco, the majority shareholder, announced closure for this year.

Nanisivik: Owned by Mineral Resources International Ltd., this lead, zinc, and silver mine is located at the north end of Baffin Island. It mills around 900,000 tonnes of ore a year, and ships concentrates to European and US markets. Purchases total an estimated $12 million yearly, however, purchases from NWT-based suppliers are limited by its location and the need for air or sealift service from southern

ports. Exploration efforts to extend ore reserves have been unsuccessful to date and present reserves are expected to last until about 1990, although mine officials are still hopeful that current aggressive exploratory work will pay off. Employment is approximately 180.

Polaris: Cominco's Polaris lead-zinc mine on Little Cornwalis Island is the world's most northerly metallic mine. It mines and mills more than a million tonnes of ore per year for shipment to European and US smelters during the summer months. The mine spends roughly $1 million on NWT goods and services annually. Approximate employment is 275.

Con: The Nerco Con gold mine is located in Yellowknife and mills on average more than 200,000 tonnes a year. It employs approximately 440 miners and spends about $6 million annually in the NWT. Nerco has taken steps to improve mining efficiency and to expand exploration with a view to increasing the productive life of the mine.

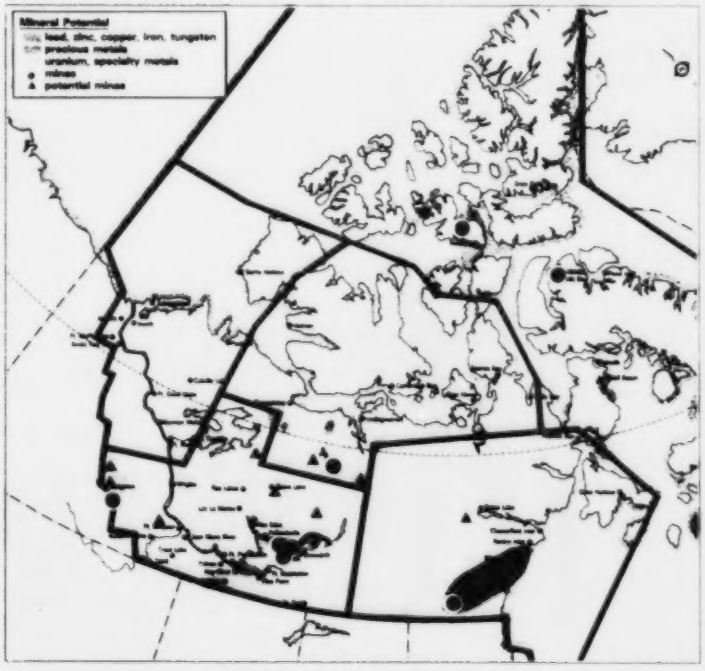
Giant: Located near Yellowknife, it mills over 300,000 tonnes of gold a year. Giant was recently acquired by Pamour Inc., and the company is installing a $24 million tailings retreatment process which should add another 30-40% to gold recovery. The mine employs about 400 and spends around $3 million annually in the NWT.

Ptarmigan: This Treminco Resources gold mine is located some 10 km northeast of Yellowknife. A relatively small operation, it produces around 60 tonnes of ore per day for milling by Giant Yellowknife. The company employs about 50 and spends about $600,000 on NWT supplies and services every year.

Lupin: Located approximately 400 km northeast of Yellowknife, this is one of Canada's most profitable gold mines and produced almost half of the NWT's total gold production in 1986. Annual milling exceeds 600,000 tonnes, and average annual employment exceeds 420. Owner Echo Bay Mines Ltd. spends about $43 million a year on NWT purchases.

Oil and Gas

Oil production at Norman Wells was up slightly to 1,536 in 1987 from 1,411 thousand cubic metres in 1986. Total natuaral gas production at Norman Wells was down slightly



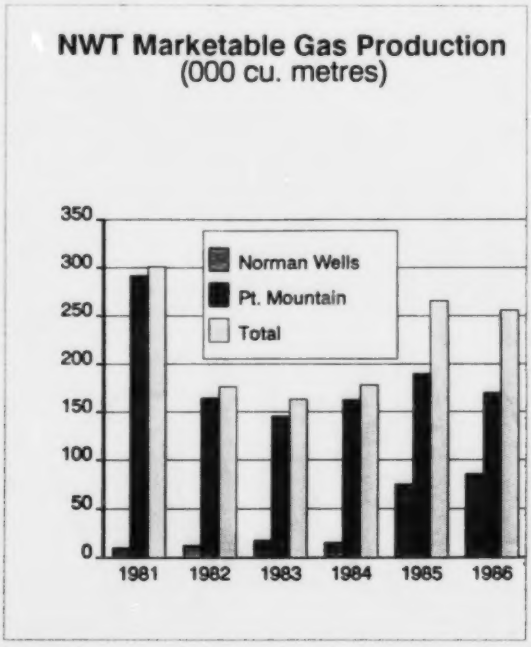
to 161 from 188 thousand cubic metres. (Pointed Mountain production was not available.)

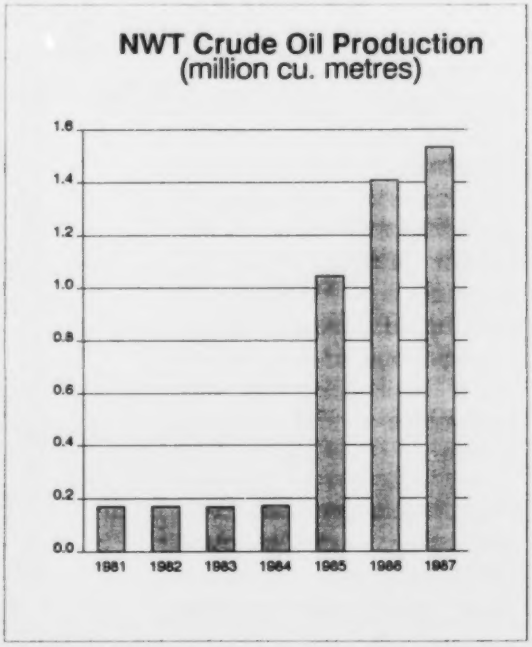
Esso completed a $20 million upgrade on facilities and drilled a number of holes around the perimeter of the Norman Wells field last year. The work has allowed the company to increase production of crude oil and natural gas production from 4000 to 5000 cubic metres a day.

Panarctic shipped 275,000 barrels of oil from its Bent Horn field in the High Arctic last fall as part of a continuing program of limited production. The company has a four-year contract to supply all of the annual crude oil requirements for NCPC's Resolute Bay plant, and a separate contract to supply 50% of the annual oil requirements at Cominco's Polaris Mine.

Following the first allocation of oil and gas exploration rights in the Mackenzie Valley since the Berger inquiry, Chevron Canada and Fort Good Hope signed a $41.7 million joint venture agreement to explore a million acres of land 50 km southwest of the community. The project has already given rise to a new business, Star Tech, and employed 80 northerners full time. An estimated 120-150 will be employed by 1989. The deal gives the community an option to acquire a 20% interest in any future production licenses issued on the land.

Panarctic drilled a single dry hole at Cameron Island last year. Gulf discontinued an extended production testing on the Amauligak field. Results from the first well were encouraging, with the flow rate of 13,000 barrels/day, but later tests reduced its previous estimate of recoverable reserves to 5-600 million, from 7-800, barrels of oil. The company will continue delineation work this year. Esso completed a 3-D seismic program on its Taglu field but most of its activity involved cleanup work. There are no definite plans for next year.





Tourism

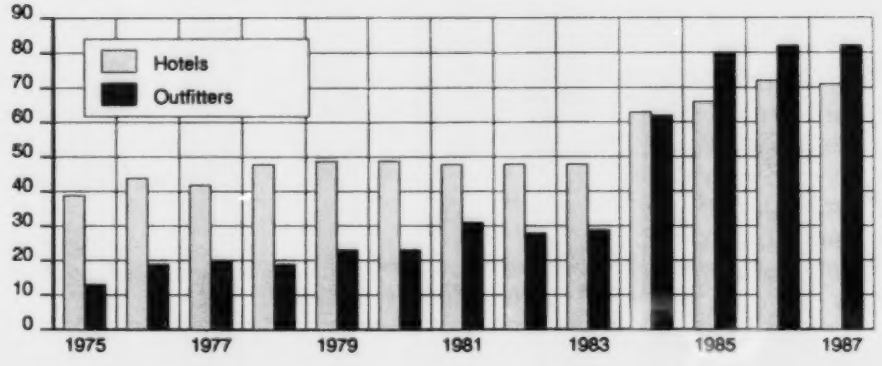
A new marketing campaign and lingering effects of Expo 86 have generated considerable tourism traffic in the NWT lately.

Tourism traffic to the NWT picked up noticeably in 1987. The Fort Smith Region, which captures roughly 70% of NWT non-resident pleasure travel, experienced a 25% increase over 1986 traffic at the Fort Providence ferry crossing last year. Traffic on the Dempster Highway was up by 30%.

The Department of Economic Development and Tourism estimates there were 25,000 non-resident pleasure travellers in 1987 who spent about $900 each and contributed (along with resident and non-resident business travellers) to the employment of about 2500 NWT residents full time and seasonally.

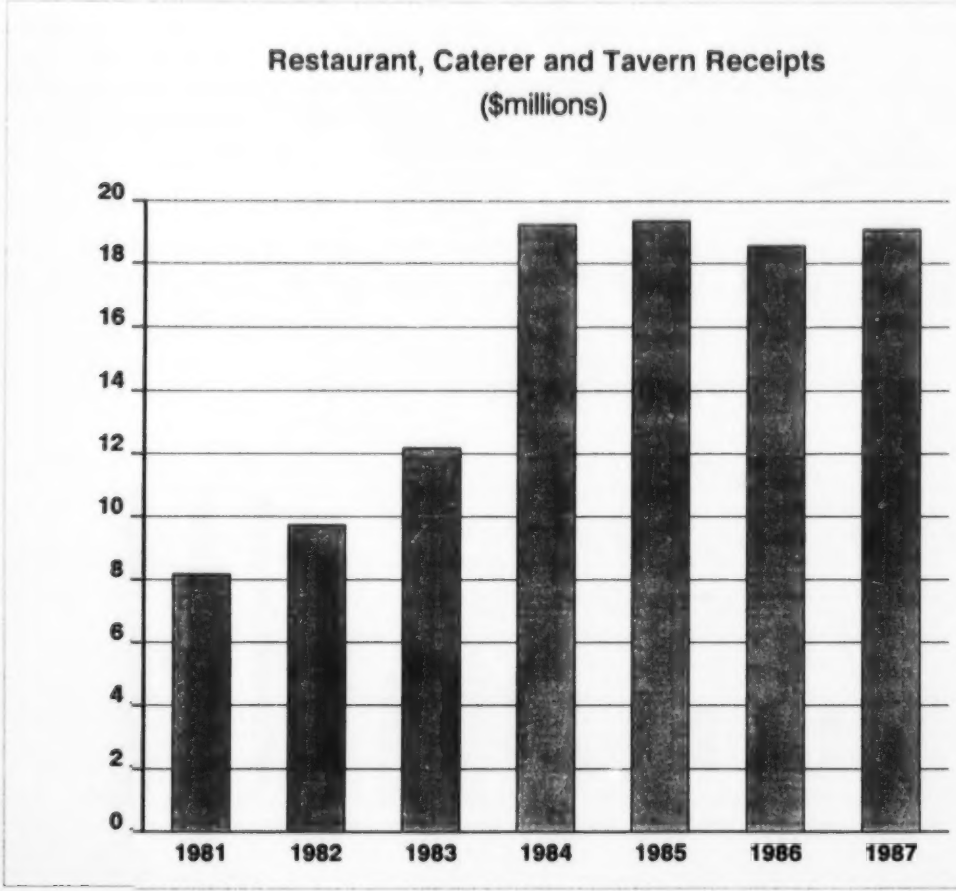
The number of NWT hotels declined by one, from 72 in 1986 to 71 in

Growth in NWT Guest Facilities



1987 but rose again to 73 by 1988.

With a new $1 million budget, the Government of the Northwest Territories' TravelArctic has contracted with the Camp & Associates agency to develop a sophisticated advertising campaign this year. Targeted mainly at the vast United States market, the program includes upscale magazine ads and, for the first time, television commercials. The campaign could be supplemented by favourable NWT exposure on the American TV programs *Lifestyles of the Rich and Famous* and *PM Magazine*.



Renewable Resources

The renewable resource industries picked up marginally in 1987, but the fur industry, and particularly sealing, are still suffering from past and present attacks by animal welfare groups.

Forestry

The NWT's four small-scale commercial sawmills in Fort Smith, Fort Resolution, Fort Simpson and Hay River employed some 50 mostly-seasonal loggers and sawmillers in 1987, and several community mills cut rough lumber for such local uses as boardwalks, building repairs, etc.

Increased prices brought lumber revenues up to an estimated $2.25 million in 1987 from below $2 million the year before. Prices are expected to remain high next year and perhaps rise even further if there is a strike in the British Columbia industry.

The annual allowable NWT lumber cut is more than 25 million board feet, far in excess of current annual production of about four million board feet. Studies have shown there is sufficient raw material in the Liard Valley to allow an annual cut of 20 million board-feet, which could service most of the Western Arctic's estimated softwood demand of 22 million board feet annually, and create more than 150 jobs. A further 250 jobs could be created through the development of comprehensive fuel wood harvesting operations, accompanied by conversion from fossil fuel to wood heat in the Fort Smith and Inuvik Regions.

Fur Harvesting

An increase in the average price for marten, from $60 to $110 led to the overall increase in fur sales last year.

About 90% of the $5.6 million in fur exports came from the Fort Smith and Inuvik Regions. Fur revenues have been increasing in these two western regions in recent years, but the Baffin, Keewatin and Kitikmeot regions have yet to recover from the collapse in European sealskin markets. The effects of the collapse have been felt most in communities that have the fewest available economic opportunities, and no other options but welfare.

Amiq Leathers, a subsidiary of Nunasi Cor-

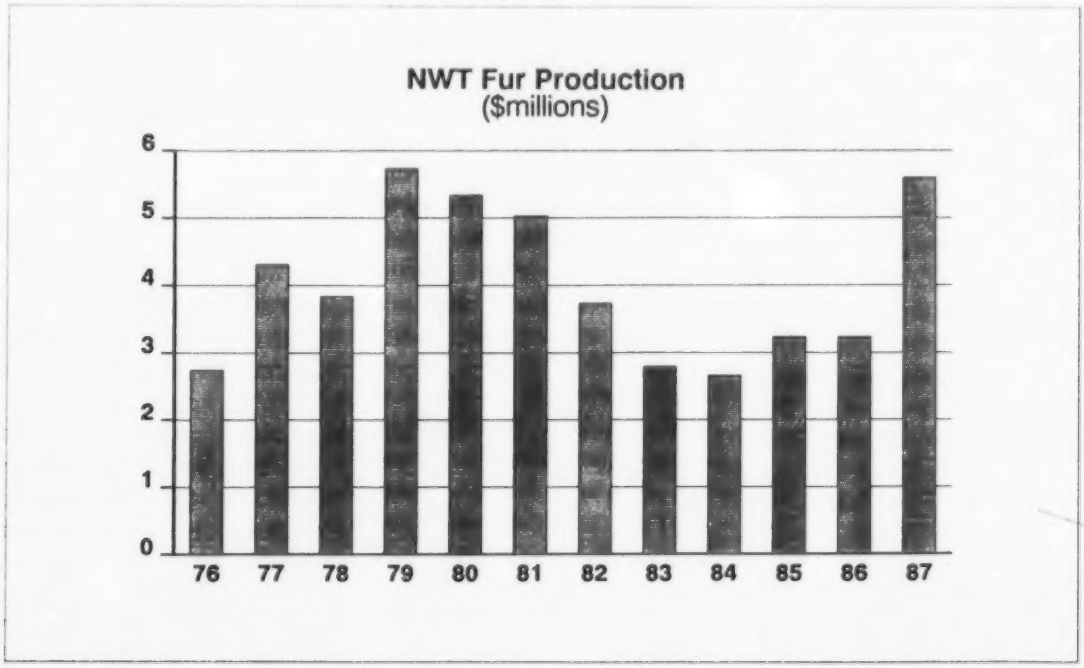
poration, has developed and test- marketed attache cases, wallets and other products manufactured from sealskin leather that have attracted great interest in markets in Canada and the Orient. Ironically, however, the largest impediment to commercial success, particularly in the short term, is an uncertain supply of sealskins. Market reaction has been such that demand already far outstrips Amiq's ability to supply leather, and the sealing industry has reached such a state of decline that it can't produce nearly enough skins for profitable production runs. Moreover, the few hides that are available are often unsuitable for leather production, because the sealskins require different treatment and storage from what they have traditionally received in the North, and Inuit hunters are still largely untrained in the new techniques. A $200,000 Economic Development Agreement project has been set up to address the issue this year.

There is a growing market for farm-bred fur in the United States and elsewhere. Of the two fox fur farms in the NWT, the one in Hay River has been turning a profit, the one in Eskimo Point is trying to establish the feasibility of replacing expensive commercial fox feed with country foods.

Agriculture

Exceptionally high production costs and a short growing season, among other constraints, have confined NWT agriculture to small- scale market gardening and dairy operations on private, municipal and Commissioner's lands near Hay River and Yellowknife.

There is nonetheless considerable scope for small-scale commercial agriculture to serve local NWT markets, and indeed a suc-



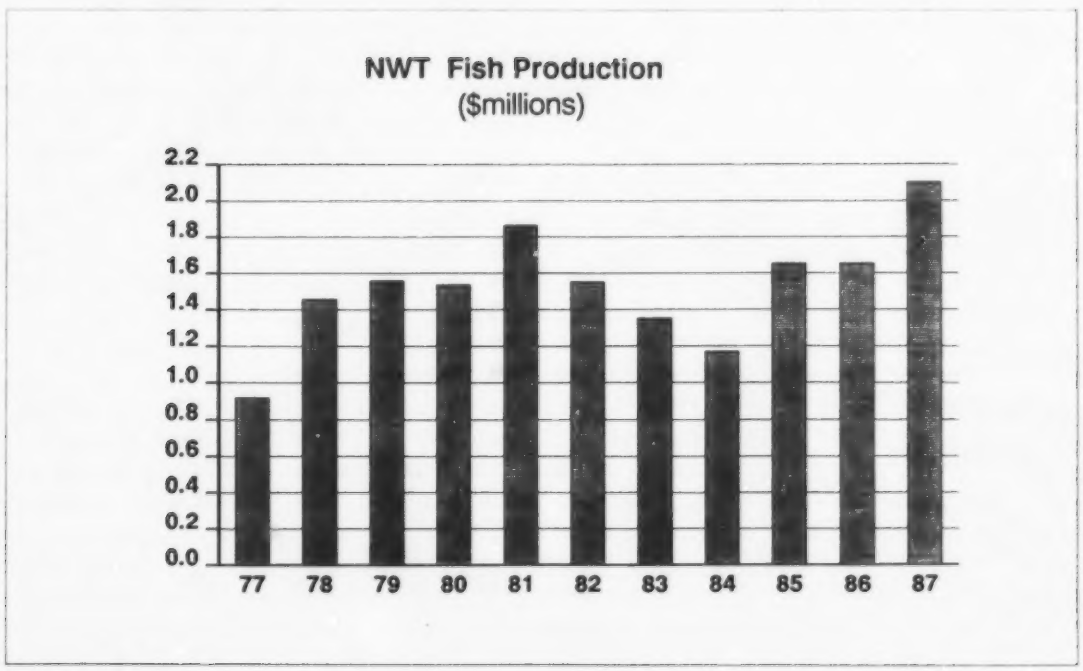
cessful Hay River egg production company is now supplying the Western Arctic. The same company is investigating the feasibility of small chicken farms in Iqaluit supplying eggs for the local and neighbouring Greenland markets.

The NWT's only major ranching company is the Mackenzie Delta's Canadian Reindeer Ltd., a private concern employing 30-40 seasonal herdsmen in the management of 15,000 head. The meat and byproducts are sold very profitably throughout Canada and internationally.

Commercial Fishing

Great Slave Lake whitefish comprised 75% of the estimated $2.1 million industry output in the 1986-87 season, with arctic char from the Kitikmeot, Keewatin and Baffin Regions contributing about 10%. The industry employed about 120 people.

In the Baffin, work is proceeding on development of shrimp and scallop fisheries in the Cumberland Sound and Hudson and Davis Strait areas, and on the harvesting of mussels, sea cucumbers and sea urchins off the Belcher Islands.



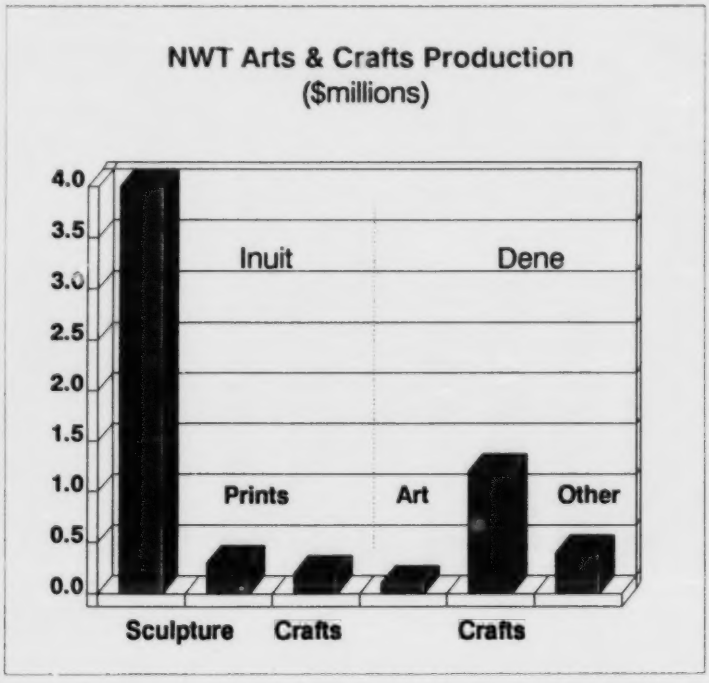
Arts & Crafts

Inuit sculpture sales have been rising recently, but Dene craft markets have seen little change.

Total arts & crafts retail sales were about $20 million annually. That represents an increase of about $5 million over the past few years, but still falls short of the 1980-81 peak.

Moreover, virtually all of the increase, and indeed most of the total sales, are attributable to Inuit sculpture. The market for Dene and other Inuit arts and crafts has seen little change.

Although production levels have remained fairly constant, quality has slipped in recent years. Fine art dealers are concerned about the lack of available exhibition-quality material, not only for its own sake but because demand for fine art enhances demand for native arts and crafts.



Studies indicate industry sales could improve sigificantly with more effective promotion and by educating producers on both the ways of the marketplace and on the importance of not trying to market marginal work.

Outlook

The future is bright for the mining industry in the short term and for the petroleum industry in the longer term. Tourism and arts & crafts show promise. The outlook for NWT commercial renewable resource industries is uncertain.

The NWT economy has cooled off considerably since the investment binge of the early 80s, when territorial Gross Domestic Product rode to unprecedented highs as a result of large expenditures related to construction of the Norman Wells pipeline, the Polaris Mine at Little Cornwallis Island and, mostly, to the multi-million Petroleum Incentive Program (PIP), which pumped $400-500 million annually into the territorial economy between 1981 and 1984.

Similarly high investments are highly unlikely in the near future, especially as long as the price of oil remains below $20/barrel. For 1988, observers predict exploration will remain limited in the Beaufort and High Arctic but could intensify considerably in the Mackenzie Valley. A Northern Accord between the federal and territorial governments appears imminent and formal announcement of such an agreement could generate numerous new exploration permits in the valley.

How things will evolve in the frontier regions in the longer term is impossible to predict, but one thing is certain: conventional Canadian oil supplies are quickly running out and the shortages are expected to push domestic prices higher in the 1990s. Likewise, it appears certain that the huge natural gas bubble in the United States will burst within the next few years, and Canadian producers would then be in a good position to service American markets.

In mining, barring unexpected substantial upswings in ore prices, overall NWT mineral production will decline in 1988 with the closure of the Pine Point Mine. At the same time, however, Neptune Resources will begin construction on its Colomac property 130 miles north of Yellowknife this year. Both the open-pit mine and gold mill are expected to be among Canada's largest and employ about 350 people.

Looking further ahead, last year's exploration activity produced a number of exciting prospects. A prime example is the

Noranda Exploration/Getty Resources Tundra Gold property at Courageou s Lake, approximately 240 km northeast of Yellowknife. Probable reserves are estimated to be 26.4 million tons of very high grade ore. The two companies plan conduct a $25 million underground exploration program on the deposit over the next two years.

Savanna Resources, American Chromium Ltd., Bow Valley Industries and Cominco might also be spending several millions on exploration in the Courageous Lake area over the next two years.

In the Indin Lake area, Echo Bay Mines and two junior mining companies, Comaplex Resources and Petromet Resources, have outlined two signifi-cant gold deposits at the KIM claims.

Near Yellowknife Golden Marlin Resources has identified an extension of Campbell Shear zone, Con's main source of gold.

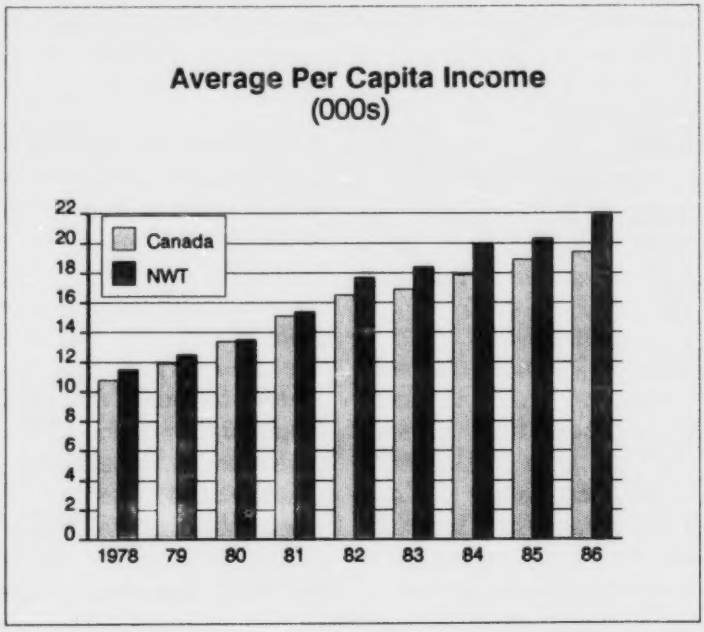
Aber Resources has drilled three promising test holes in the Contwoyto area near the Lupin Mine.

In the Keewatin, Borealis Exploration indicates showings of 50,000 tons of gold-bearing reserves grading 0.3 oz. per ton at its Fat Lake deposit near Rankin Inlet. In the same area, Noble Peak Resources has tested its Happy Lake property, recording gold values ranging between 0.16 and 0.25 oz. per ton.

Urangesellschaft has delineated significant uranium reserves on its Kiggavik property west of Baker Lake and is planning development, although it is encountering political opposition from anti-nuclear lobbies here and in southern Canada. The company could mine 15,000 tonnes and process 1000 tonnes ore a day to generate about 1600 tonnes of U3O8 annually.

Rapidly developing high-tech industries are generating increased world demand for rare earths. Highwood Resources has found a significant deposit containing rare earth metals and other "space age" minerals at Thor Lake. Originally staked as a uranium prospect, at least 86 other minerals have been found on the property. Current resources in the property's T zone indicate 1.6 million tons grading 0.85% beryllium oxide, as well as significant resources of yttrium, tantalum, columbium, neodymium, samarium and gadolinium.

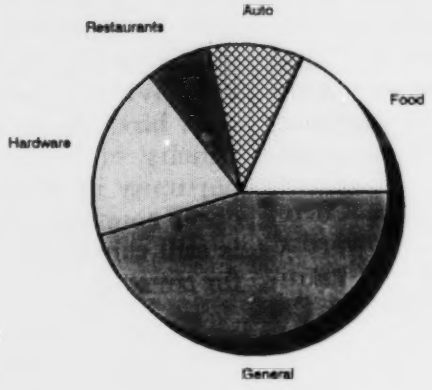
Approximately 90% of 1987's mineral explora-



tion was financed by flow-through share financing. The program financed work at, among others, Noranda/Getty's Tundra project, Neptune's Colomoc project and Highwood's Thor Lake project. The federal government recently announced that flow-throughs would be replaced in 1989 by the Canadian Exploration Incentive Program which will provide up to $3 million to companies that finance mineral or petroleum exploration by issuing shares to individuals. It is not yet clear how the new program will affect the NWT mining industry.

For tourism, the prospects for continued growth are highly promising. Discretionary incomes are increasing, vacation time is expanding, air travel costs are decreasing, and public opinion polls suggest travel is a high priority among better-educated consumers. Travel industry experts say the NWT has the potential to supply a wide and attractive range of products in the wilderness and adventure markets, one of the most rapidly expanding tourism markets in North America. These include traditional products like sport fishing and big game hunting as well as newer experiences built around native culture and unique vacation/pleasure experiences which hold strong appeal among young and affluent travellers. Moderate expenditure forecasts, based on national industry standards and adjusted for the relative immaturity of the NWT industry, predict revenues will increase by about $38 million over a period of five years, to create approxi-mately 2500 new person-years of employment and about $12 million in gross tax revenues. Additional benefits will accrue from direct public and private expenditures on tourism infrastructure construction and upgrading.

NWT Retail Sales



In the renewable resource sector, new technologies and new markets are increasing opportunities for commercial development. Studies show, for example, that aquaculture, i.e. char farming, would be biologically and technically feasible and that the reliability of supply associated with cultured char could improve efficiency and enhance market prospects for the entire NWT char industry. Growing interest in Europe and the Pacific Rim countries could provide markets for several hundred thousand additional pounds of harvestable caribou and muskox meat each year, provided supplies are reliable and health inspection

facilities and procedures are adequate.

An agricultural study indicates potential for the establishment of market gardens, beef and pork, and egg operations in the South Slave Lake area to supply local markets as far away as Yellowknife.

The future of the wild fur industry is highly uncertain. The same animal-rights activists who convinced the European Common Market to ban sealskins have now launched a campaign to ban furs from all animals caught in leghold traps. Most NWT trappers use leghold traps because they know how to use them and because leghold traps are considerably cheaper than quick- kill traps. But even if most were willing and financially able to switch to connibear or soft-catch leghold traps, one must wonder how long it will be before activists — using powerful, if less-than-honest advertising techniques — succeed in putting an end to trapping altogether.

For the Northwest Territories in general, with the Inuvialuit land claim settled in the Mackenzie/Beaufort region, it now appears entirely plausible that agreements-in-principle will be reached this year on the Dene/Metis claim in the Mackenzie Valley and on the Inuit claim in the Eastern Arctic, with final settlements reached by next year. Though the existence of claims is perhaps less an obstacle to investment than it was a few years ago, final settlements will undoubtedly inspire greater investment confidence in many quarters than is the case now.

The Canada-US free trade, if passed by Parliament and Congress, as now appears likely, will benefit the NWT mining industry by reducing the cost of heavy and specialized equipment used in the industry and, hopefully, by exempting Canadian minerals from any American protectionist measures. Other NWT industries also stand to benefit eventually from lower input costs.

Frontec Logistics Corp., which has been awarded the operations and maintenance contract for the North Warning System, is contractually committed to creating at least 363 person-years of employment and to spending at least $12 million on purchases in the north by 1992. Canac/Microtel, which has the communications contract, is committed to creating 276 person-years of employment, of which 50% must be filled by northern residents, and to spending a total of $28 million overall in the north. The companies must provide training for 163 and 151 northerners respectively. Both have northern preference policies for contracts.

In sum, the NWT economy as a whole appears to be emerging from a cooling-off period after the boom earlier in the decade, and there are definite signs of further expansion over the next decade. On the other hand, that expansion will embrace only some communities. Given the already high unemployment rates, the high birth rates and the paucity of economic opportunity in many of the other communities, there is still considerable cause for concern.